THE ROLE OF MARKETING CAPABILITIES AND ENTREPRENEURIAL ORIENTATION ON SME PERFORMANCE

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ABSTRACT

Significant research has shown entrepreneurial orientation (EO) has direct and positive effect on firm performance with large firms. This study endeavors to determine whether there are other factors (e.g., marketing capability) through which EO might influence SME performance. SME firms (< 200 employees) within a four state radius are surveyed. Results show that in SMEs an EO has both a direct and indirect effect (through marketing capability) on SME performance. Further, that marketing mix capability (MMC) exerts a greater influence on SME performance than market information management capability (MIC). Results are discussed and directions for future research offered.

INTRODUCTION

Significant research has been undertaken to explore the various strategic orientations which serve to influence firm performance. To this end, market orientation, learning orientation, technology orientation, and entrepreneurial orientation have all been found linked to firm performance and competitive advantage (Day, 1994; Gatigon & Xuerb 1997, Grinstein, 2008; Lukas & Ferrell, 2000; Zhou & Li, 2010). Among these critical strategic orientations, entrepreneurial orientation (EO) has been a central topic in research for a number of years now (Covin & Wales, 2011). EO has been proven to play as one of essential internal drivers for firm performance, especially for small- and mid-size firms (Eggers, Kraus, Huges, Laraway, & Snycerski, 2013; Lonial & Carter, 2015; Wiklund & Shepherd, 2003). Wiklund and Shepherd (2003) clearly find that the internal firm environment, which includes EO, strengthens the positive relationship between performance and knowledge-based resources. Some studies have found a weaker relationship between EO and firm rents (Lumpkin & Dess, 2001; Zahra, 1991), whereas other studies suggest a strong correlation between EO and business performance (Covin & Slevin, 1986; Hult, Snow, & Kandemir, 2003; Wiklund & Shepherd, 2003). Lumpkin and Dess (1996) contend that external and internal factors influence the strength of the EO-performance relationship, which may explain why some researchers find a weak association between EO and firm performance.

There are possibly other variables that may influence the EO and firm performance relationship. For SMEs, an area that has not been investigated in detail concerns understanding factors that may serve to mediate the EO-firm performance relationship. Although investigated within the context of large firms, there is a gap in the extant research with regards to identifying factors that may serve to impact the EO-firm performance relationship in the SME's environment. The role of the SME global economies cannot be overstated. In the U.S. alone, SMEs accounted for 99.9 percent of businesses and 46 percent of nonfarm GDP in 2008 (Small Business and Entrepreneurship Council, 2015. Further, according to the Small Business Administration's Office of Advocacy, small firms accounted for 63 percent of net new jobs created between 1993 and 2013 and 48.5 percent of private sector payrolls. In terms of innovation, small business produce 16 times more patents per employee than large patenting firms do (Small Business and Entrepreneurship Council, 2015). In addition, according to the OCED, SMEs account for over 95 percent of firms and 60-70 percent of employment and generate a large share of new jobs in OCED economies (OCED, 2000). As such, identifying factors that may serve to influence EO-firm performance relationship should be of particular import to researchers especially as it relates to the SME. One such factor, marketing capability, may help explain some of the varied results found with regards to EO-firm performance relationship.

Due to highly competitive forces and the economic recession, among small and medium firms only those firms which have successfully created and managed close relationships with precisely targeted customers appear to survive. In such an environment, an entrepreneurial spirit and culture and the adroit marketing effort of the SME becomes crucial. Drawing from resource-based theory, marketing capability (MC) has been studied extensively to explain heterogeneity in firm performance for large-size companies. Shin and Aiken (2012, p. 661) specified this important organizational capability as "an organization's repeatable patterns of applying the resources of the firm to the market-related needs of the business that become embedded a routines over time (Amit & Shoemaker, 1993; Day, 1994; Grant, 1996; Su, Tsang, & Pang, 2009). Previous research concerning marketing capability (within the context of large firms) has found a positive relationship exists between MC and firm performance (e.g., Chang, Park, & Chaiy, 2010; Morgan, Zou, Vorhies, & Katsikeas, 2003. Small firms seem to start to recognize the importance of marketing capability in doing business and becoming prosperous, but few studies have explored what role this capability plays and how it influences better firm performance. We propose to extend our understanding of firm performance within SMEs by investigating whether this relationship portends to SMEs.

A within subjects research design using an online survey was administered to entrepreneurs from SMEs across four industries (manufacturing, construction, research and development, and service) investigating the constructs of interests. The survey data were elicited from small business owners located in the northwest U.S. Business owners were identified using the U.S. Small Business Administration's (SBA) Central Contractor Registry (CCR). The CCR is a self-certifying database of all firms who wish to do business with any branch of the U.S. federal government. Data were extracted from the CCR database using the CCR's web-based Dynamic Small Business Search tool, which allows users to search the CCR database for firms who meet the SBA's criteria for small business. Small business definitions vary according to each firm's NAICS code and are summarized in the SBA's "Table of Small Business Standards" (SBA, 2006). Only those firms registering 200 or fewer employees were included in the study. Multiple regression analysis was used to evaluate the hypotheses.

In this study, we try to make three contributions. First, we test the positive relationship between EO and firm performance within SMEs in a Northwestern context. Although this link has been explored extensively for largesized organizations, we retest to confirm the findings of relevant prior studies in the SMEs. Second, and most importantly in this study, we explore the role of MC in the relationship between EO and firm performance. Specifically, two distinct dimensions of marketing capabilities - market information management capability (MIC) and marketing mix capability (MMC)-are tested as pivotal drivers for firm performance and as mediators for EO linking firm performance. Third, based on the findings, we try to provide managerial implications to SMEs both in local and international markets. Thus, this paper includes literature review, hypotheses development, methodology, and finding and results of the analysis. Discussions and conclusions are provided along with the limitations of the study and the future directions.

BACKGROUND

Entrepreneurial Orientation

Entrepreneurial Orientation (EO) has been an important research focus for a number of years (Covin & Wales, 2011). The EO concept and definition were first addressed within the research concerning business and strategy development processes (Mintzberg, 1973; Khandwalla, 1976, 1977). Over time several definitions of EO have emerged. For instance, Covin and Slevin (1989) state that, "entrepreneurial firms are those in which top managers have entrepreneurial management styles, as evidenced by the firms' strategic decisions and operating management philosophy" (Covin & Slevin, 1989, p. 77). Miller and Friesen (1982) posit that the EO concept catches the innovative strategy of a company, which is often determined by a firm's leadership based on its temperaments and goals. Miller (1983) was first to take into account a collection of different organizational behaviors into the EO definition. Miller (1983, p.771) maintains that "an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch." In other words, EO is a multi-dimensional construct which involves firms engaging in innovativeness, risk taking and pro-activeness. Lumpkin and Dess (1996) extend EO to add competitive aggressiveness and autonomy to the construct. Rauch, Wiklund, Lumpkin, and Frese (2009, p. 764-65) describe these five dimensions:

"Innovativeness is the predisposition to engage in creativity and experimentation through the introduction of new products/services as well as technological leadership via R&D in new processes. Risk taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to ventures in uncertain environments. Pro-activeness is an opportunity-seeking, forward-looking perspective characterized by the introduction of new products and services ahead of the competition and acting in anticipation of future demand. Competitive aggressiveness is the intensity of a firm's effort to outperform rivals and is characterized by a strong offensive posture or aggressive responses to competitive threats. Autonomy refers to independent action undertaken by entrepreneurial leaders or teams directed at bringing about new venture and seeing it to fruition."

As most studies so far have focused on the first three dimensions (Rauch et al., 2009), this paper uses Covin and Slevin's (1991) definition adopting a Miller and Friesen (1982) focus. Covin and Slevin (1991) citing Khandwalla (1977) state that, "firms with entrepreneurial postures are risk taking, innovative, and proactive. Entrepreneurially oriented firms are willing to take on high-risk projects with chances of very high returns, and are bold and aggressive in pursuing such opportunities. As such we operationalize entrepreneurial orientation (EO) as an organizational mindset characterized by a firm's strong proclivity for risk-taking, innovativeness, and proactiveness. Consequently, an entrepreneurial firm "engages in product-market innovation, undertakes somewhat risky ventures, and is the first to come up with "proactive" innovations beating competitors to the punch," (Miller 1983, p. 771 as cited in Wang 2008). Entrepreneurial organizations often initiate actions to which competitors then respond, and are frequently first-to-market with new product offerings. In support of this strategic orientation, entrepreneurial firms characteristically emphasize technological leadership and research and development (Miller & Friesen, p. 7-8). It emerges from a strategic-choice perspective (Child, 1972), which asserts that new-entry opportunities can be successfully undertaken by "purposeful enactment" (Van de Ven & Poole, 1995). Thus EO involves the intentions and actions of the key players in an organization functioning in a dynamic generative process aimed at new-venture creating.

There have been numerous studies that have shown a relationship between having an EO and increased firm performance (Chow, 2006; Lumpkin & Dees, 1996; Rauch et al., 2004; Rauch et al., 2009; Shepard and Wiklund, 2005). It has been argued that organizations benefit from demonstrating newness, degree of boldness and responsiveness. Lumpkin and Dess (1996) discussed those benefits extensively. Especially in today's turbulent environment where rapid changes occur, product and business model life-cycles are shortened and future profit streams are uncertain from existing operations, businesses need to constantly look for new opportunities. Thus, firms may be able to benefit from adopting an entrepreneurial orientation. Entrepreneurial organizations innovate on a frequent basis while taking calculated risks. Entrepreneurial firms try to anticipate demand and position their new products/services aggressively in the market which often leads to improved firm performance. Consequently, an EO leads to a higher performance (Rauch et al., 2009).

In the extant research some studies have found strong correlations between EO and firm performance (Covin & Slevin, 1986; Hult, Snow, & Kandemir, 2003; Wiklund & Shepherd, 2003), while other studies have found weaker correlations (Lumpkin & Dess, 2001; Zahra, 1991). Still other research has found that other factors in a firm's external and internal environment also exert an influence on performance (e.g. Covin & Slevin, 1989; Zahra & Covin, 1995). For example, Zahra and Covin (1995) contend that innovation helps companies to stay ahead of competition and proactive firms introduce new products/service before the competition does, resulting in a competitive advantage contributing to better financial performance. Likewise, Wiklund and Shepherd (2003) argue that a firm's internal environment also has an influence on performance. They show that EO strengthens the positive relationship between performance and knowledge-based resources. Lumpkin and Dess (1996) add that external and internal factors influence the strength of the entrepreneurial orientation-performance relationship.

Although there are been some mixed results about the EO-performance relationship, Rauch et al. (2009) found in a meta-analysis across previous EO studies that EO has a positive effect on performance. Their analysis found moderately large correlation between EO and performance. Their findings suggest that any business will most likely benefit from adopting EO. However, they also agree with other research (e.g., Lumpkin & Dess, 1996) that there are other variables that may influence the EO and firm performance relationship. Factors such as firm size, national culture, financial resources, network capability and learning orientation have all been shown to influence the EO-performance relationship (Rauch, Wiklund, Frese, & Lumpkin, 2004; Walter, Auer, & Ritter:

Wang, 2008; Wiklund & Shepard, 2005). Nevertheless, for most organizations it is expected that an EO posture will positively influence firm performance.

Marketing Capability

The resource-based view of firm performance has tended to focus upon the internal factors that serve to explain firm performance. Thus, the resource-based theory explains performance heterogeneity as a result of valuable, inimitable, rare, and non-substitutable resources and capabilities possessed by different firms (Amit & Shoemaker, 1993; Barney, 1991; Penrose, 1971; Shin & Aiken, 2012; Vorhies & Morgan, 2005). There have been attempts to distinguish capabilities from firm resources or assets, and conceptualize capabilities as a "special" type of resource that is embedded within organizations, and further as a deployment system between resources and firm performance (Ahn & York, 2011; Makadok, 2001; Shin & Aiken, 2012). Many argue that capabilities directly enhance the productivity of the firm's other resources, and in particular, marketing capabilities are considered essential in driving firm performance (Day, 1994; Morgan, Slotegraaf, & Vorhies, 2009a; O'Cass & Weerawardena, 2010; Ramaswami, Srivastava, & Bhargava, 2009).

Marketing capability has been gaining in popularity and is increasingly being operationalized in research (Day, 1994; Moorman & Slotegraaf, 1999; O'Cass & Weerawardena, 2010, Srivastava, Shervani, & Fahey, 1999; Vorhies & Morgam, 2005). Of particular interest to this research is the view of marketing capabilities outlined by Vorhies and Morgan (2005). Vorhies and Morgan describe marketing capability as consisting as two subsets of capabilities-specific marketing capabilities (hereafter referred to as marketing mix capabilities (MMC) and architectural marketing capabilities. Marketing mix capabilities (MMC) are used to transform resources into valuable outputs based upon the classic marketing mix (e.g., pricing capability). Architectural marketing capabilities are used to coordinate marketing mix capabilities (MMC) and relate to market information management, marketing strategy development, and implementation (Capron & Hulland, 1999; Vorhies & Morgan, 2005). Of the various capabilities within architectural marketing capabilities, market information management capability (MIC) is our interest in this study, because it is considered to be fundamental and essential to firms with limited capital, as characteristic in small firms. SMEs need to understand their customers, know the competition and applicable regulations in the market they compete in, and assess relevant market information to stay in the game. Therefore, its marketing research efforts and systematic information management capabilities can be critical, and the structured process of market information management of the firm can guide what particular marketing actions should be implemented in the market with regards to the marketing mix.

Marketing capabilities is defined for this study as adopted from Shin and Aiken (2012) as "an organization's repeatable patterns applying the resources of the firm to market related needs of the business that become embedded as routines over time" (cited as Amit & Shoemaker, 1993; Day, 1994; Grant, 1996; Su et al., 2009). Vorhies and Morgan (2005) show that both market information management capabilities (MIC) and marketing mix capabilities (MMC) have been positively linked to superior performance and that firms are required to have both types of marketing capabilities to realize superior firm performance. Although this dichotomous approach - specific and architectural –to marketing capabilities has garnered a more prominent role in current research concerning marketing strategy and firm performance than any other approaches such as market-based capability or market-sensing capability, very little research has been undertaken to date to see if this holds true within SMEs. Nevertheless, we should expect that firms with superior marketing capabilities (MIC and MMC) to have a sustainable advantage over those that do not and as such and enjoy superior performance (Morgan et al., 2003; Vorhies & Morgan, 2005; Shin & Aiken, 2012). The abilities to obtain and utilize market information and to execute marketing actions with balanced marketing mix tools are something that all firms regardless of size should be able to develop. Firms equipped with not only creative and entrepreneurial spirit but also essential marketing capabilities should enjoy improved firm rents, regardless of a firm's age or size.

HYPOTHESES

The literature reviewed has shown that there is a positive relationship between entrepreneurial orientation (EO) and firm performance. We expect that this relationship would hold true for SMEs. However, research has also shown that, at least with large firms, that organizations require more than just EO to positively affect firm

performance. In addition to EO, firms must have organizational capabilities as a resource deployment system to implement the benefits of EO. As such, firms require marketing capabilities in order to mediate the positive effects of EO and firm performance. Based upon the previous discussion we propose the following hypotheses:

- H1: There is a positive relationship between entrepreneurial orientation (EO) and market information management capability (MIC) in SMEs.
- H2: There is a positive relationship between entrepreneurial orientation (EO) and marketing mix capability (MMC) in SMEs.
- H3: There is a positive relationship between market information management capability (MIC) and firm performance (FP) in SMEs.
- H4: There is a positive relationship between marketing mix capability (MMC) and firm performance in SMEs.
- H5: Marketing capabilities, a) market information management capability (MMC) and b) marketing mix capability (MIC) will mediate the relationship between entrepreneurial orientation (EO) and firm performance (FP) in SMEs.

METHODOLOGY

Sampling and Data Collection

Online survey method was used in this study. The participating firms were restricted to small-sized firms in Northwestern states including Washington, Montana, Oregon, and Idaho in U.S. Only one participant per organization joined in the survey, and the sizes of the corporations were strictly controlled to fall into the designed sample characteristics. Data were elicited from small business owners located in the Northwest United States. Business owners were identified using the U.S. Small Business Administration's (SBA) Central Contractor Registry (CCR). The CCR is a self-certifying database of all firms who wish to do business with any branch of the U.S. federal government. Data were extracted from the CCR database using the CCR's web-based Dynamic Small Business. Small business definitions vary according to each firm's NAICS code and are summarized in the SBA's "Table of Small Business Standards" (SBA, 2006). Only those firm's registering 200 or fewer employees were included in the sample. A description of the research objectives and a request for participation along with the online survey link were sent to the contact email addresses identified through the CCR.

The linked survey was designed in two sections with a cover page. The cover page included an invitation from the author, an assurance of confidentiality of the information, and contact methods for any questions and comments related to the research. First section included the main survey part with the measure items of the focal constructs, and the second section included questions related to the general information of the firms and the demographic information of the respondents. There were two follow-up/reminder emails to encourage their participations. Data collection occurred over three weeks and resulted in a sample of 108. After discarding 34 unusable questionnaires, total 74 (68.5%) were determined to use for analysis. Many of the surveys were discarded because only the cover page was visited and viewed. Descriptive information of the samples is in Table 1.



Measures

All of the measures used in this study were drawn from the existing literature. Throughout the survey, 7-point, Likert-type scale was used. For entrepreneurial orientation (EO), market information management capability (MIC), and marketing mix capability (MMC), 7-point scale was used where 7 = Strongly agree and 1 = Strongly disagree. For firm performance measures, i.e., customer satisfaction, profitability, and adaptability, 7-point scale was also used where 7 = "much better than competitors" and 1 = "much worse than competitors" based on the firm's business performance over the past year relative to the major competitors.

Entrepreneurial orientation (EO) was measured with five items. The measures were adopted with little modification from the prior studies by Lumpkin and Dess (1996) and Luo, Sivakumar, and Liu (2005). Market information management capability (MIC) was measured with five items and all the measures were adopted from Vorhies and Morgan's (2003) study. Marketing mix capability (MMC) was measured by six items, and all the measures were adopted from Vorhies, Morgan, and Autry (2009).

Firm performance was measured through ten items; customer satisfaction in 4 items, profitability in 3 items, and adaptability in 3 items adopted from the previous studies. Customer satisfaction represents the effectiveness of the organization in delivering value to its customers (Day & Wensley, 1988; Kaplan & Norton, 1996). Profitability, using perceptual scales related to the firm's financial performance over the past twelve months (Morgan, Clark, and Gooner, 2002). Lastly, adaptability was measured as the ability of the firm to respond to changes in its environment (Ruekert, Walker, & Roering, 1985; Shin, 2012).

For further analysis, firm-specific questions were included such as industry type, firm size, and firm age. Firm size is captured by the number of employees, and firm age is gauged as the number of years of operation in business. These two measures were particularly important to observe in our study because other research discussed meaningful relationships between these two variables and resources, and firm rents (e.g., Gu, Hung, & Tse, 2011). Respondents' working years in the current-working firm and their professional functions were also recorded as control variables.

Respondents		No.	%	Company		No.	%
Owner	Yes	63	85.1	Firm age	.5-5 years	14	18.9
	No	11	14.9		5.1-10 years	18	24.3
Function	President/CEO	62	16.1		10.1-20 years	23	31.1
	Marketing/Sales	26	12.2		20.1-41 years	19	25.7
	Finance/Accounting	17	23.0	Firm size	0-1 employee	8	12.2
	R&D	11	14.9		2-5 employees	21	28.3
	Operation	16	21.6		6-10 employees	16	21.7
	IT	11	14.9		11-20 employees	14	18.9
	Other	4	5.4		21 or more	15	10.6
	Senior Team Staff	57	31.7	Industry	Manufacturing	11	14.9
Working	.5-5 years	20	27.0		Construction	9	12.2
years	5.1-10 years	23	31.1		R&D	3	4.1
	10.1-20 years	19	25.7		Services	26	35.1
	20.1-41 years	12	16.2		Retail	3	4.1
					Other	22	29.7

Table 1. Statistical information of samples

Notes: N = 74.

RESULTS

Scale Validation

Reliability, means, and standard deviations are presented in Table 2, and inter-construct correlations are presented in Table 3. A test of reliability using Cronbach's coefficient alpha showed that all of the focal constructs (entrepreneurial orientation: .811; market information management capability: .815; marketing mix capability: .889; customer satisfaction: .897; profitability: .968; adaptability: .917) exceeded Nunnally's (1978) standard of .70. Therefore, the authors established support for convergent validity (Bagozzi, Yi, & Phillips, 1991) of the constructs, exhibiting good measurement properties.

The validity of the scale items used was assessed via principal-axis factoring which completed using an eigenvalue of 1.0 and factorings of .50 as the cut-off point suggested by Zaichkowsky (1985). For one of the items of marketing mix capability (MMC) i.e., pricing, showed isolated and was loaded on its own, and therefore, it was deleted. All items were loaded significantly on the corresponding latent construct except two items of marketing mix capability (MMC). These two items showed slightly below the cut-off value (.477 and .489), but however the authors decided to keep these items. There was no evidence of cross-loading of any item values. The factor analysis of all variables resulted in a solution that accounted for 75.435% of the total variance. The summed means of all the measures were used in the hypotheses testing.

Me	casures	M	SD	Cronbach's α
En	trepreneurial Orientation (EO) (all)	5.39	.957	.811
1	Our company has higher propensity to take risks	5.24	1.373	
2	Our company has higher tendency to engage in strategic planning activities	5.23	1.319	
3	Our company has higher ability to identify customer needs and wants.	5.57	1.111	
4	Our company has higher ability to persevere in making our vision of the business a	5.49	1.274	
	reality.			
5	Our company has higher ability to identify new opportunities.	5.45	1.251	
M	arket Information Management Capability (MIC) (all)	4.46	1.181	.815
1	Gathering information about customers and competitors.	4.57	1.356	
2	Using market research skills to develop effective marketing programs.	4.16	1.481	
3	Tracking customer wants and needs.	5.00	1.414	
4	Making full use of marketing research information.	4.09	1.416	
5	Analyzing our market information.	4.32	1.491	
M	arketing Mix Capability (MMC) (all)	4.53	1.118	.889
1	Advertising and promotion	3.81	1.488	
2	Public relations	4.23	1.477	
3	Personal selling	4.95	1.632	
5	New product/service development	5.32	1.413	
6	Channel management	4.36	1.355	
Cu	stomer Satisfaction (all)	6.03	.972	.897
1	Customer satisfaction	5.96	1.060	
2	Delivering value to customers	6.12	.912	
3	Delivering what customers want	6.05	1.026	
4	Retaining valued customers	5.97	1.394	
Pr	ofitability (all)	4.81	1.417	.968
1	Business unit profitability	4.86	1.503	
2	Return on investment (ROI)	4.79	1.481	
3	Return on sales (ROS)	4.78	1.446	
4	Reaching financial goals	4.82	1.507	
Ad	laptability (all)	4.69	1.200	.917
1	Time to market for new products/services	4.69	1.283	
2	Number of successful new products/services	4.65	1.196	
3	Revenues from new products/services (less than 3 years old)	4.75	1 401	

Table 2. Measure Characteristics

Notes: N = 74; SD: Standard Deviation; Answers were recorded on a 7-point Likert scale where 7 = Strongly agree and 1 = Strongly disagree for Entrepreneurial Orientation, Market Information Management Capability, and Marketing Mix Capability. For firm performance measures, i.e., Customer Satisfaction, Profitability, and Adaptability, answers were recorded on a 7-point Likert scale where 7 = "much better than competitors" and 1 = "much worse than competitors" based on the firm's business performance over the past year relative to the major competitors.

	1	2	2	1	5	6	7	8
	1	2	5	4	5	0	/	0
1. EO	1							
2. MIC	.587**	1						
3. MMC	.477**	.453**	1					
4. CS	.260*	.257*	.284*	1				
5. Prft	.403**	.360**	.302**	.431**	1			
6. Adpt	.471**	.339**	.595**	.453**	.445**	1		
7. SizeLn	.158	.232*	.192	.050	.199	.100	1	
8. AgeLn	262*	242*	.017	092	034	069	.365**	1
Mean	5.39	4.46	4.53	6.03	4.81	4.69	n/m	n/m
SD	.957	1.181	1.118	.972	1.417	1.200	n/m	n/m

Table 3. Correlation coefficients and descriptive sta

Notes: N = 74; *SD*: Standard Deviation; EO: Entrepreneurial Orientation; MIC: Market Information Management Capability; MMC: Marketing Mix Capability, CS: Customer Satisfaction; Prft: Profitability; Adpt: Adaptability; SizeLn: Company size (ln); AgeLn: Company age (ln); Company size and company age were transformed by taking logarithm; n/m: not meaningful; **p < .01, *p < .05.

	Factor							
	1	2	3	4	5	6		
EO1					.556			
EO2					.510			
EO3					.637			
EO4					.756			
EO5					.802			
MIC1	.651							
MIC2	.915							
MIC3	.586							
MIC4	.863							
MIC5	.832							
MMC1						.603		
MMC2						.849		
MMC3						.696		
MMC5						.477		
MMC6						.487		
CS1			.864					
CS2			.867					
CS3			.900					
CS4			.725					
Prft1		.909						
Prft2		.895						
Prft3		.885						
Prft4		.914						
Adpt1				.814				
Adpt2				.839				
Adpt3				.813				

Table 4. Factor A	analysis of	Variables
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Notes: N = 74; EO: Entrepreneurial Orientation; MIC: Market Information Management Capability; MMC: Marketing Mix Capability, CS: Customer Satisfaction; Prft: Profitability; Adpt: Adaptability

Research Model Test Results

The research model was assessed using multilevel regression with IBM SPSS Statistics 19. To test main hypotheses, three times of regressions were executed with MIC and MMC, and firm performance as dependent variables for each corresponding model. For control other critical variables, firm size and firm age were included in each regression test. All three regression models were verified through coefficient of determination. R-squares of each model indicated satisfactory level of explained variability (R^2/Adj , R^2 = .393/ .367, .252/ .220, and .301/ .260, respectively), and therefore, validations were established.

Positive relationships between EO and two marketing-related capabilities: MIC and MMC were found (β = .502, p < .001; β = .490, p < .001, respectively). This supports H1 and H2. Firm performance was regressed on MIC and MMC at the same time, and the positive links among the variables were found (β = .273, p < .05; β = .372, p < .01, respectively). This supports H3 and H4. Neither firm age nor firm size was found to correlate firm performance. The results of multilevel regression analyses are reported in Table 5 below.

	Model 1		Mo	del 2	Model 3		
Dependent Variables	Market In	fo. Mgmt. Marke		ting Mix	Firm Perf	ormance	
Control Variables							
Firm Size	.370	.223	.219	.085	.242	005	
(Ln)	(3.196)**	(2.138)*	(1.722)+	(.728)	(1.940)+	(039)	
Firm Age	377	192	068	.102	164	.032	
(Ln)	(-3.259)**	(-1.799)+	(538)	(.850)	(-1.309)	(.266)	
Independent Variable							
Entrepreneurial		.502		.490			
Orientation (EO)		(4.990)***		(4.413)***			
Mediating Variables							
Market Info.						.273	
Management (MIC)						(2.200)*	
Marketing						.372	
Mix (MMC)						(3.235)**	
R ² (Adj. R ²)	.177 (.154)	.393 (.367)	.041 (.014)	.252 (.220)	.056 (.029)	.301 (.260)	
F	7.633	15.102	1.493	7.751	2.085	7.327	

Table 5. Regression Results

Firm size and firm age were transformed by taking logarithm;

***p < .001, **p < .01, *p < .05, +p < .10; N = 74

Mediating Effect Analysis

To check the possibility of a mediating role of MIC and MMC, the original approach suggested by Baron and Kenny (1986) was used. According to Baron and Kenny (1986) to test a mediation effect, "one should estimate the three following regression equations: first, regressing the mediator on the independent variables; second, regressing the dependent variable on the independent variables; and third, regressing the dependent variable on both the independent variable and on the mediator" (Baron & Kenny, 1986, p. 1177. We also followed the guideline of Preacher and Hayes (2008) for the multiple mediation testing.

In the first analytical step, the first mediator, MIC was regressed on EO. As Model 1 in Table 6 showed, the relationship was significant (EO-MIC: β = .587, p < .001). In the second step, firm performance was regressed on EO, and the regression result showed their positive relationship in Model 4 (EO-performance: β = .478, p < .001). In the last step, MIC was loaded with EO as independent variables in Model 5-1. The result showed that EO was still found to have a positive impact on firm performance but the effect was significantly decreased from .478

to .349. Thus, MIC partially mediated the link between EO and firm performance, although MIC marginally linked to firm performance.

To validate MMC as a mediator, the identical procedure was used. MMC was regressed on EO. As Model 2 showed, the relationship was positive and significant (EO-MMC: β = .477, p < .001). MMC and EO were loaded as independent variables in Model 5-2. The result showed that EO was still found to have a positive impact on firm performance but the effect was significantly decreased from .478 to .272. Thus, MMC partially mediated the link between EO and firm performance.

	Market Info. Mgmt.	Marketing Mix		Fir	m Performanc	ce ^a	
	Model 1	Model 2	Model 3-1	Model 3-2	Model 4	Model 5-1	Model 5-2
Main Effect							
Entrepreneurial	.587	.477			.478	.349	.272
Orientation	(6.158)***	(4.578)***			(4.619)***	(2.769)**	(2.399)*
Mediating Effects							
Market Info.			.424			.219	
Mgmt.			(3.977)***			(1.738)+	
Markating Mix				.495			.365
Warketing Witz				(4.807)***			(3.218)**
R^2 (Adj. R^2)	.345 (.336)	.228 (.217)	.180 (.169)	.246 (.235)	.229 (.218)	.260 (.239)	.303 (.283)
ΔR^2						.031 (.021)	.074 (.065)
F	37.918	20.956	15.817	23.103	21.332	12.476	15.202

Table 6. Mediation Test Results

***p < .001, **p < .01, *p < .05, +p < .10; N = 74

a. Firm performance is the mean values of Customer Satisfaction, Profitability, and Adaptability;

DISCUSSION

Conclusions and Implications

The results provide empirical support for the argument made in this research. First, entrepreneurial orientation (EO) is proven to have a direct and strong impact on firm performance. Specifically, the results show that having EO does positively impact SME performance. This finding confirms the results of the relevant prior studies. EO is a critical organizational culture that SMEs should foster in order to achieve better firm rents. Second, marketing capabilities - MMC and MIC - are proven to directly influence firm performance in the SME context. This finding generalizes the critical role of marketing capabilities for improved firm performance regardless of the size of the firm. These results strengthen findings found in other research (e.g., Morgan et al., 2003; Vorhies & Morgan, 2005; Shin & Aiken, 2012) that have found a positive impact of marketing capabilities on firm performance. What is interesting in these findings is that MMC appears to exert a stronger influence (β = .372 versus .273) on performance than does MIC (see Table 5). It may be that MMC more directly enables a firm to implement the necessary actions (e.g., effective communications with the marketplace, developing and placing the right products or services that consumers desire and implementing effective pricing strategies) that drive superior firm performance.

Third, this study proposes that there exists a positive relationship between a firm's EO and its marketing capabilities. The results support this contention as EO has been shown to positively influence both MIC and MMC. These findings suggest that EO allows for firms to better monitor their environment for marketing opportunities. Further, the results are consistent with other research (e.g., Kwak, Jaju, Puzakova, & Rocereto, 2013; Wales, Parida, & Patel, 2013) which show that EO motivates a "constant indulgence to exploit environmental dynamics" and that entrepreneurial firms tend to more actively create new markets by closely

observing environmental pressures (e.g., market information) that provide opportunities for new product or service development (Lumpkin & Dess, 1996). Entrepreneurial firms constantly operate in turbulent market environments that are rife with new information providing a context which leads to information acquisition and exploitation (Lumpkin & Dess, 1996; Wang, 2008). Further, the results reaffirm other research that has shown EO's ability to enhance a firm's ability to acquire, assimilate, transform, and exploit market information (Wales et al, 2013).

Fourth, most importantly, MMC and MIC are shown to mediate EO and firm performance among SMEs. Furthermore, having both EO and additional marketing capabilities exerts a direct and positive influence on SME performance. Our findings show EO's influence on performance is partially mediated when additional marketing capabilities (e.g., market information management capabilities (MIC) and marketing mix capabilities (MMC)) exist within the firm. More specifically, though EO does influence SME performance, the full impact of EO can only be realized when other capabilities exist within the SME. That is, having marketing capabilities (i.e., MMC and MIC) enhances the effect of a firm's EO on its performance. Furthermore, as the findings suggest that MMC exerts a greater influence on SME performance than does having MIC. These results evidence the need in SMEs to foster marketing abilities such as marketing research efforts, information management for customers and competitors in the market, new product development, marketing communications, sales and promotions, and channel management, if they are to realize greater firm performance and thrive in an increasingly more competitive global marketing environment. Results suggest that having EO in and of itself is becoming insufficient as a motivator of superior firm performance for the SMEs. It may be that the hypercompetitive market environment of recent years has "raised the bar," so to speak, in regards to how firms can engender superior performance.

Taken together, the results provide evidence that SMEs require marketing capabilities in order to more fully benefit from EO. Although preliminary in nature, these finding suggest that in today's highly competitive market environment, SMEs need to develop addition capabilities in order to realize significant competitive advantage and that having marketing capabilities (MIC and MMC) may serve to enable the benefits an EO to the SMEs. It appears that marketing capabilities may serve to bridge the benefits derived from EO to firm performance in SMEs. Results imply to SMEs that effort needs to be made to develop marketing capabilities even if EO exists within the firm if it is to thrive in the todays turbulent and hypercompetitive market environment.

Our findings have implications for practitioners relating to the execution of marketing strategy for developing sustainable competitive advantage. First, to advance an organization's businesses performance SMEs should cultivate marketing capabilities including marketing mix (MMC) and market information management (MIC) capabilities. It is not enough for a firm to be entrepreneurially oriented but it must possess the means to effectively implement the requisite marketing actions needed to effectively exploit opportunities identified. Moreover, as MMC was found to the most impactful marketing capability enabling firm performance, SMEs would be well served to allocate effort and resources toward developing their MMC in order to more fully realize the firm performance benefits motivated by EO. With limited resources, SMEs might be well served in initially hiring individuals with specific experience and competencies that relate to the planning and execution of product, pricing, promotion and distribution activities (e.g., MMC skills). Second, SMEs still need to cultivate MIC to facilitate firm performance. Yet, with the quickening pace of changing market trends and the unpredictable nature of economic transformations SMEs may waver in allocating scarce resources to building their knowledge assets. Our study findings suggest that this would be short sighted. Results show that managers and small businesses need to invest in building knowledge assets which can be a source of sustainable competitive advantage.

Although studied within the context of U.S. SMEs, our findings do have implications for SMEs in other countries. As technology and a changing marketspace have blurred the boundaries of competition, more and more firms are finding that competition is no longer geographically bound nor defined. The prevalence of the Internet in fomenting marketing transactions coupled with the expansion of contract global distribution systems such as Fedex and UPS small businesses are increasingly finding themselves competing with entities from across the world. This changing competitive landscape is the new reality facing the SME today. With finite resources and hyper competition it would serve the SME well to allocate its limited resources to those areas having the greatest impact on performance. To this end, our findings suggest that increased focus on MMC and MIC development may provide the best return on investment for the SME regardless of geographic location.

This research sought to explore whether or not entrepreneurial orientation and marketing capability positively influences firm performance in SMEs and whether or not marketing capability mediates the EO-firm performance relationship. Findings provide support that marketing capability does have a direct and positive influence on firm performance and that it partially mediates the effect that an entrepreneurial orientation has on SME performance. Other factors have been shown to influence the effect of EO on firm performance to include firm size (Rauch et al., 2004), networking capabilities (Walter et al., 2005), access to financial resources (Wiklund & Shepard, 2005), and learning orientation (Wang, 2008).

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

As with any research, this research has limitations. First, the study only looked at businesses in four states from the Northwest of the United States. Additional research should be undertaken to see if the results replicate across geographical regions and cultures. Efforts should be made to conduct larger studies that investigate the phenomena across business type and settings in order to further elucidate our understanding of entrepreneurship at the marketing interface. Differences may be found with respect to the importance of marketing capabilities in relations to technology versus nontechnology oriented businesses Second, only two marketing capabilities—marketing mix capability (MMC) and market information management capability (MIC)-were investigated in the present research. Other factors such as marketing planning capability and marketing implementation capability (Chang et al., 2010; Morgan et al., 2003) or marketing control (Armstrong & Kotler, 2013; Shin, 2013) have been shown to influence firm performance and as such merit further investigation within the context of the SME. Third, difficulty in collecting the data at SME level has prevented us from including objective measures of performances. Other researchers may overcome this difficulty and test similar relationships with objective indicators of firm performance.

With research in entrepreneurship still rather fragmented it is important to keep focus on this phenomenon, especially since SMEs are significant contributors to economic development. Although previous research has recognized various factors that serve to enhance entrepreneurship and motivate performance this study was undertaken in an attempt to elucidate the factors that motivate performance within the SME and further our understanding of the same. We hope this research serves to motivate additional research concerning the SME at the entrepreneurship/marketing interface.

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